

November 13, 2007

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-20-07 Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards

Dear Ms. Morris:

The Financial Reporting Committee ("the FRC") of the Institute of Management Accountants ("IMA") appreciates the opportunity to provide its views on the *Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards* (the Concept Release). FRC is the financial reporting technical committee of the Institute of Management Accountants. The FRC is comprised of representatives from preparers of financial statements from some of the largest companies in the world, the largest accounting firms in the world, valuation experts, accounting consultants as well as academics. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

As a starting point we commend the Securities and Exchange Commission ("SEC") for undertaking this important initiative. The FRC shares the SEC's goal of having companies around the world prepare financial statements using a common set of high quality accounting standards. We believe the Concept Release is an important step on the path to that goal.



In our letter dated September 21, 2007, the FRC supported the SEC's proposal to allow foreign private issuers to file financial statements in accordance with International Financial Reporting Standards (IFRS) without reconciliation to US GAAP. The FRC now urges the SEC to move as quickly as possible to issue a rule permitting US registrants to voluntarily prepare financial statements in accordance with IFRS. We support giving US registrants this option for the following reasons, which are elaborated in the remainder of this letter:

- IFRS represents a comprehensive, high quality set of accounting standards.
- If the financial statements of foreign private issuers prepared in accordance with IFRS are acceptable for SEC filings, fairness requires that financial statements prepared on the same basis should be acceptable for US registrants.
- Giving US registrants the option to prepare financial statements in accordance with IFRS will allow them to choose the reporting basis that minimizes their cost of capital, which will be beneficial to the registrants and to their investors.
- A voluntary program will mobilize the energies of the free market to raise the IFRS knowledge and expertise of all members of the US financial reporting community.
- A voluntary program will accelerate achievement of the goal of having companies around the world prepare financial statements using a common set of high quality accounting standards.

IFRS Are High Quality Standards

IFRS are developed through a robust process that includes substantive due process and share with US GAAP a focus on providing decision-useful information to investors. Since the widespread adoption of IFRS in Europe, European financial markets have performed well, indicating that investors have confidence in financial statements prepared in accordance with IFRS.

Fairness and Equity

IFRS has developed into a comprehensive and robust set of accounting standards. The SEC has recognized this development in its proposal to allow foreign private issuers to file financial statements in accordance with IFRS without reconciliation to US GAAP. Once the SEC makes that decision, the FRC believes that there is no logical reason to prohibit US registrants from filing financial statements in accordance with IFRS. The FRC believes that it would be unfair and inequitable to US registrants to prohibit them from using the same accounting standards available to foreign private issuers.

Minimize Cost of Capital

For some US registrants, preparing financial statements in accordance with IFRS will reduce the cost of capital as compared to continued use of US GAAP. That lower cost is beneficial to those registrants, and to their investors.

In some cases, IFRS may result in lower costs to prepare financial statements. In other cases, IFRS may result in higher preparation costs, but lower cost of capital because of market (investor) reaction. The FRC believes that each US registrant is in the best position to decide which set of accounting standards minimizes its cost of capital.

The Concept Release notes that many foreign subsidiaries of US registrants are required to file statutory financial statements in accordance with IFRS. Today, those subsidiaries are required to prepare US GAAP financial statements for purposes of the parent company's worldwide consolidated financial statements, incurring the cost of complying with both IFRS and US GAAP. For some US registrants with extensive international operations, preparing the worldwide consolidated financial statements in accordance with IFRS would reduce cost by allowing all entities to follow just one set of accounting standards—IFRS. Assuming that investors were receptive to IFRS financial statements, both the registrants and their investors would benefit from the cost savings.

The Concept Release also notes that the primary competitors for some US registrants are non-US enterprises that prepare financial statements in accordance with IFRS. It would be easier for investors to evaluate the financial performance

of those US registrants relative to their competitors if the US registrants were permitted to prepare financial statements in accordance with IFRS. Investors might reward those companies with a lower cost of capital because of the greater ease and reduced uncertainty in evaluating their performance.

The FRC believes that each registrant is in the best position to balance the internal costs or savings of preparing financial statements in accordance with IFRS with investors' reactions to IFRS financial statements and to make an informed decision about whether IFRS will reduce its cost of capital. That is why the FRC favors a voluntary program that allows each registrant to decide, allowing market forces to determine how rapidly US registrants move to IFRS.

Raise IFRS Knowledge and Expertise

The Concept Release raises questions about the readiness of the US financial community to adopt IFRS. Adoption of IFRS will require enhanced knowledge about IFRS among registrants, their independent public accountants, and investors. This will require changes to college curricula and significant investments in continuing professional education. The challenge of educating accountants and investors about IFRS is one that is ideally suited to market forces. The FRC believes that a voluntary program permitting US registrants to file financial statements in accordance with IFRS will mobilize market forces to deliver the needed education. A demand by employers for graduates with knowledge about IFRS is the strongest motivation for colleges and universities to expand courses about IFRS. A demand by registrants and auditors for continuing professional education courses about IFRS is the strongest motivation for firms specializing in that market to expand and upgrade their IFRS course offerings. Increasing use of IFRS by US registrants and foreign private issuers is the strongest motivation for investors to become more knowledgeable about IFRS. Market forces will be stronger motivation than any number of blueprints, plans, or well-meaning exhortations. The beauty of a voluntary program is that US registrants will adopt IFRS at different times, allowing time for corporate accountants, auditors, and investors to become more knowledgeable about IFRS as those skills are needed.

Some have observed that the US is not ready for thousands of US registrants to adopt IFRS immediately. The FRC agrees. A voluntary program will not result in thousands of registrants adopting IFRS immediately. Initially, those US registrants described in the preceding section (extensive international operations or



major competitors already using IFRS) will be most strongly motivated to adopt IFRS. As time passes, more US registrants will be motivated to adopt IFRS. The process will occur over a period of years, allowing time for all constituents to become better informed about IFRS.

Accelerate the Adoption of a Common Set of Accounting Standards

Currently, the goal of a common set of accounting standards is dependent on the “convergence” efforts of the FASB and the IASB. The FRC supports those efforts and believes that the two Boards should continue to work to converge on high quality standards. The FRC observes, however, that the convergence process is slow and cumbersome and not assured of success (if success is defined by having fully converged standards). It is not surprising that the convergence process is so slow and difficult. Accounting is not a natural science in which one can conduct experiments and objectively determine scientific truth. Accounting is a human construct, and accounting standards are inherently subjective and a matter of opinion. The seven members of the FASB from decade to decade reach different conclusions on a given topic. Therefore, it is not surprising that the seven members of the FASB and the fourteen members of the IASB find it difficult and time-consuming to agree 100% of the time on subjective judgments.

Because of the difficulties noted in the preceding paragraph, the FRC believes it would be unwise to pin all hopes of achieving the goal of a single set of global accounting standards on the current convergence efforts. A program of permitting US registrants to adopt IFRS provides an alternative route to adoption of a common set of accounting standards. If over time a substantial number of US registrants voluntarily adopt IFRS, then it may become feasible to move all US registrants to IFRS, making IFRS the single, worldwide set of accounting standards.

The FRC believes that another advantage of a voluntary program will be to encourage US registrants to become more interested in IFRS and more engaged in the due process and deliberations about IFRS. Currently, US financial reporting constituents (for example, registrants, investors, and auditors) engaged in the standard-setting process are primarily focused on the activities of the FASB and less engaged in the activities of the IASB. As a result, the two Boards receive comment letters on proposals from substantially different constituent groups. This phenomenon exacerbates the difficulties with the convergence process. As US

registrants adopt IFRS, the US financial reporting constituents will naturally turn more of their focus to the activities of the IASB. This should lead to US companies providing more input to the IASB, which should lead to more consistency in the public responses to the two Boards. In addition, as noted in our letter dated September 21, more active involvement by US constituents in the comment and deliberation phases of the IASB's process will provide increased pressure toward convergence.

Other Observations

Benefits to Investors. The FRC understands that some commentators believe that allowing US registrants to prepare financial statements in accordance with IFRS will be detrimental to US investors. The FRC disagrees with those assertions and believes that a voluntary program will be either neutral or beneficial for US investors.

Financial markets are global, and become more global with each passing year. US investors today have opportunities to invest in US enterprises that prepare financial statements in accordance with US GAAP and non-US enterprises that prepare financial statements primarily in accordance with some variant of IFRS. Thus, investors who want to make the best investment choices already need to be conversant with both US GAAP and IFRS. A voluntary program to allow US registrants to prepare financial statements in accordance with IFRS will not increase diversity in reporting; it will simply shift some companies from the US GAAP group to the IFRS group. Further, as noted in the Concept Release, in some industries most of the major companies are non-US entities that currently prepare financial statements in accordance with IFRS. If the US registrants in those industries prepare financial statements in accordance with IFRS under the voluntary program that the FRC recommends, investors interested in that industry will benefit from greater comparability than they have today.

Since the advent of IFRS, European stock markets have traded both companies that follow IFRS and companies that follow US GAAP. As noted previously, European financial markets have performed well during this period, indicating that investors can cope successfully with financial statements prepared under two sets of accounting standards during this transitional period of developing a common set of accounting standards.

Applicability of Staff Accounting Bulletins. In conjunction with permitting US registrants to adopt IFRS, the SEC staff should clarify the applicability of Staff Accounting Bulletins under IFRS, that is, which ones are applicable to registrants that adopt IFRS. The FRC believes that registrants adopting IFRS should apply all SABs that are not contrary to IFRS.

Implementation Issues. The Concept Release includes an extensive list of implementation issues. The FRC would be pleased to work with the SEC staff on resolving those issues.

We appreciate the opportunity to comment on the Concept Release and would be pleased to answer any questions you may have. I can be reached at 212-484-6680.

Sincerely,



Pascal Desroches
Chair, Financial Reporting Committee

